
FEDERAL DEBT AND INTEREST COSTS

Outlays for net interest represent the gross cost of financing all federal government debt, less interest earned by federal government on its trust fund investments and loans to the public.

Net interest spending is not directly controllable by policy actions. Interest spending depends on the level of debt and on interest rates. Congress and the President control the level of debt through decisions about spending and taxation. Interest rates are determined by market forces and Federal Reserve policy.

INTEREST COSTS AND THE PUBLIC DEBT (\$ Billions)

	1999	2000	2001	2002	2003	2004	2005
	Actuals						
Interest Outlays:							
Interest on public debt (gross)	353.5	359.0	360.0	363.5	368.1	371.1	372.4
Interest rec'd by trust funds:							
Social Security	-52.1	-60.0	-68.1	-77.6	-87.9	-98.8	-110.5
Other trust funds a/	-66.6	-71.4	-74.1	-78.2	-81.9	-84.8	-87.6
Other interest received b/	-5.1	-7.7	-9.4	-9.1	-8.9	-10.0	-10.6
Net interest on public debt	229.7	220.3	208.3	198.6	189.3	177.5	163.8

Debt Projections Based on President's Budget Proposals

Federal Debt, End of Year:

Gross Federal Debt	5,606	5,686	5,769	5,855	5,947	6,034	6,118
Debt Held by Gov't. Accts.	1,973	2,210	2,464	2,721	2,984	3,253	3,541
Debt Held by the Public	3,633	3,476	3,305	3,134	2,963	2,781	2,578
Debt Subject to Limit c/	5,568	5,648	5,732	5,819	5,912	5,999	6,086

Federal Debt as a Percentage of GDP:

Gross Federal Debt	61.5%	59.4%	57.5%	55.7%	54.1%	52.5%	50.6%
Debt Held by the Public	39.9%	36.3%	32.9%	29.8%	27.0%	24.2%	21.3%

a/ Includes Civil Service Retirement, Military Retirement, Medicare, unemployment insurance and the Highway and Airport and Airway trust funds.

b/ Primarily interest on loans to the public and to the RTC and Bank Insurance Fund.

c/ Differs from gross federal debt because most debt issued by agencies other than Treasury is excluded from the debt limit.

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The President's budget includes net interest outlays of \$220 billion in 2000, falling to \$164 billion by the year 2005. Net interest outlays currently make up 13 percent of total federal outlays; by 2005, under President Clinton's budget, net interest outlays would make up 7.7 percent of total spending. Relative to the OMB baseline, however, the President's budget increases spending on net interest by \$5.5 billion over five years and \$64.7 billion over ten years.

- < President Clinton proposes to increase total federal debt by \$512 billion and to decrease debt held by the public by \$1.055 trillion by the year 2005. As a share of the total economy, federal debt will fall to roughly 51 percent of GDP by the year 2005.
- < The statutory debt limit today stands at \$5.95 trillion. Under the President's budget projections, debt subject to limit will equal \$5.732 trillion at the end of fiscal year 2001 and \$5.999 trillion at the end of fiscal year 2004, so the statutory debt limit will have to be increased sometime during fiscal year 2004 under the President's plan.
- < The President states that his plan will pay off the publicly held debt by 2013. While this sounds dramatic, Congress would achieve the same goal with their pledge to save the Social Security surplus. Indeed, because the President proposes to give trillions of dollars of new IOUs to the Social Security Trust Fund during this century, his gross debt would actually be higher than Congress's in 2013.
- < Indeed, one could characterize the President's IOU plan as one that tries to "borrow our way into solvency". By the middle of this century, the President's SS IOU transfers will boost the gross debt by roughly \$34 trillion dollars. These IOUs will all have to be paid back by future taxpayers. Thus, while the President proclaims he pays off the publicly held debt, he fails to mention the fact that he causes the gross debt (and hence future taxpayers' obligations) to balloon.

